

Testbank

to accompany

Financial Accounting 9th edition

by

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Chapter 2: Financial statements for decision making

Multiple-choice questions

1. Which of the following statements is *incorrect*?
- a. The liability of shareholders to contribute to the debts of an insolvent company is limited.
 - b. A sole proprietorship is an accounting entity.
 - c. Individual partners are personally liable for partnership debts.
 - *d. Partnerships are regarded as separate legal entities.

Correct answer: d

Learning Objective 2.1 ~ identify the common types of business entities.

2. In order to avoid later disputes it is desirable that a partnership agreement:
- *a. is in writing.
 - b. should have the partners sharing profits and losses equally.
 - c. should set up the partnership as a separate legal entity.
 - d. should set out in detail how the how all likely transactions are to be recorded.

Correct answer: a

Learning Objective 2.1 ~ identify the common types of business entities.

3. Which of the following is the correct expression of the accounting equation?
- a. $\text{Assets} + \text{liabilities} = \text{equity}$.
 - b. $\text{Assets} = \text{liabilities} - \text{equity}$.
 - c. $\text{Assets} + \text{equity} = \text{liabilities}$.
 - *d. $\text{Assets} = \text{liabilities} + \text{equity}$.

Correct answer: d

Feedback: $\text{Assets} = \text{liabilities} + \text{equity}$.

Learning Objective 2.1 ~ identify the common types of business entities.

4. Maintaining a satisfactory relationship between an entity's resource inputs and its output of product or services is referred to as:
- a. planning.
 - *b. efficiency.
 - c. organising.
 - d. effectiveness.

Correct answer: b

Learning Objective 2.2 ~ discuss the functions carried out by managers.

5. How well an entity attains its goals is referred to as:
- a. efficiency.
 - b. planning.
 - c. organising.
 - *d. effectiveness.

Correct answer: d

Learning Objective 2.2 ~ discuss the functions carried out by managers.

6. The statement of changes in equity:
- a. indicates the ability of the entity to generate cash flow.
 - b. shows the selling price of the entity's assets.
 - c. shows how profit was determined.
 - *d. serves as a connecting link between the income statement and the balance sheet.

Correct answer: d

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

7. A balance sheet:
- a. is classified into operating, investing and financing activities.
 - b. measures the entities financial performance.
 - *c. lists assets, liabilities and equity at a specific point in time.
 - d. shows how profit was determined.

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

8. Assume you are examining a financial statement headed 'As at the 31 December 2014'. The heading indicates the statement is the:
- a. trial balance.
 - b. income statement.
 - c. statement of changes in equity.
 - *d. balance sheet.

Correct answer: d

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

9. Which of the following statements concerning the income statement is *not* true?
- a. The heading must indicate the length of time the report covers.
 - *b. It shows the change in the entity's cash balance for the period.
 - c. If expenses exceed income then a loss has been incurred for the period.
 - d. An alternative name is the statement of financial performance.

Correct answer: b

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

10. Which of the following statements concerning equity is true?
- *a. It is the owner's claim to the assets of the entity after deducting liabilities.
 - b. It is fixed at the amount initially contributed when the business was established.
 - c. It is decreased by profit.
 - d. Assets + liabilities = equity.

Correct answer: a

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

11. Sydney & Associates had the following assets and liabilities. Equity is:

	\$
Cash in hand	4 000
Bank overdraft	11 000
Sundry creditors	3 000
Inventory	2 700
Sundry debtors	8 100
Office furniture	4 500
Loan from Perth Ltd	12 000
Motor vehicles	12 000

- a. \$8300.
- b. \$27 300.
- *c. \$5300.
- d. \$13 300.

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

12. The following balances were taken from the accounts of Adelaide Enterprises.

	31 Dec. 2013	31 Dec. 2014
Assets	\$450 000	\$610 000
Liabilities	270 000	310 000

Assuming there were no drawings or contributions of capital, profit for 2014 must have been:

- a. \$160 000.
- *b. \$120 000.
- c. \$300 000.
- d. \$220 000.

Correct answer: b

Feedback: Net assets at end less net assets at start.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

13. The assets of Frank's business increased by \$40 000 and the liabilities increased by \$10 000 during the current year. If the profit for this period was \$25 000, what additional contribution or withdrawal was made by the owner? (Assume only a withdrawal or a contribution was made.)

- a. Drawings \$10 000
- b. Contribution \$10 000
- *c. Contribution \$5000
- d. Drawings \$5000

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

14. Delta Company reports the following balance sheet information for 2014.

	1 January 2014	31 December 2014
Assets	\$60 000	\$70 000

Liabilities	\$12 000	\$14 000
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Assuming the capital contribution made by the owners during 2011 was \$3000 and withdrawals were \$12 000, profit for 2014 must have been:

- *a. \$17 000.
- b. \$14 000.
- c. \$16 000.
- d. \$12 000.

Correct answer: a

Feedback: Net assets at end less net assets at start less capital contribution plus drawings.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

15. Which statement is *not* correct?

- a. Information in the cash flow statement is useful in assessing the ability of an entity to pay its debts as they fall due.
- b. A comparison of the cash flow statement and the income statement can indicate to what extent the profit is represented by cash inflows.
- c. The cash flow statement classifies cash flows into operating investing and financing groupings.
- *d. Operating activities are concerned with activities involving the sales and purchases of fixed assets.

Correct answer: d

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

16. Which of the following statements concerning the cash flow statement is correct?

- *a. It provides the connecting link between the income statement and the balance sheet.
- b. It summarises the cash flows into and out of an entity.
- c. An alternative name is the cash budget.
- d. It includes cash and non-cash items.

Correct answer: a

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

17. A business transaction creating an inflow of net assets resulting from the sale of goods or services is a(n):

- a. expense transaction.
- *b. income transaction.

- c. cash disbursement.
- d. capital transaction.

Correct answer: b

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

18. On 2 January 2014 Fife Corp buys goods from O'Brien and agrees to pay for them within 60 days. On the balance sheet for Fife Corp at 2 January 2014 the amount owing to O'Brien would be reported as:
- a. an advance payment by a customer.
 - b. accounts receivable.
 - *c. accounts payable.
 - d. an expense.

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

19. Junction Plants had the following transactions during August. Which transaction represents an expense for August under the accrual basis of accounting?
- a. Used \$90 worth of office telephone calls. The account will be paid during September.
 - b. Paid \$3300 in settlement of a loan obtained three months earlier.
 - c. Paid a plumber \$500 for repair work performed in July.
 - *d. Purchased a computer for \$3000 cash.

Correct answer: d

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

20. Which statement is not true?
- a. The balance sheet can be presented in account form or narrative form.
 - *b. The account form balance sheet lists all the elements in one column.
 - c. In Australia the narrative form balance sheet is the most common.
 - d. The basic layout for the account form balance sheet is assets = liabilities + equity.

Correct answer: b

Feedback: The account form balance sheet does not list all elements in one column.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

21. If an entity has assets of \$168 900 and liabilities of \$70 000 its equity is:
- a. \$238 900.
 - b. \$28 900.
 - *c. \$98 900.
 - d. unable to be calculated.

Correct answer: c

Feedback: Equity equals assets less liabilities. ($\$168\,900 - \$70\,000$) = $\$98\,900$.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

22. If income is \$180 000, rent expense is \$120 000 and advertising expense is \$10 500, profit or loss is which of the following?
- a. \$300 500 profit
 - *b. \$49 500 profit
 - c. \$49 500 loss
 - d. \$300 500 loss

Correct answer: b

Feedback: Profit equals $\$49\,500 = (\$180\,000 - \$120\,000 - \$10\,500)$.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

23. _____ is/are resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
- a. Liabilities
 - *b. Assets
 - c. Equity
 - d. Income

Correct answer: b

Feedback: Assets are resources controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

24. Which of these is not income?
- a. Receipts from the sale of goods.
 - b. Receipts from the provision of services.
 - c. Interest received.
 - *d. Additional capital contributed by the owner.

Correct answer: d

Feedback: Additional capital contributed by the owner is not income it is equity.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

25. Which of these is not a liability?

- a. GST payable
- b. Bank overdraft
- *c. Wages paid
- d. Creditor

Correct answer: c

Feedback: Wages paid is not a liability it is an expense.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

26. Users of accounting information want to know about an entity's _____, that is, its control over economic resources, financial structure, capacity for adaptation and solvency.

- *a. financial position
- b. accounting equation
- c. liabilities
- d. performance

Correct answer: a

Feedback: Financial position is an entity's control over economic resources, financial structure, capacity for adaptation and solvency.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

27. If the loss for the period is \$15 000 and total income is \$115 000, total expenses for the period are:

- a. \$100 000.
- *b. \$130 000.
- c. \$115 000.
- d. \$145 000.

Correct answer: b

Feedback: $\$130\,000 = \text{Income} + \text{loss} = \$115\,000 + \$15\,000$.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

28. The statement that explains the changes in equity and serves as a link between the balance sheet and the income statement is which of the following?

- a. Statement of cash flows
- *b. Statement of changes in equity
- c. Operating statement
- d. Statement of financial position

Correct answer: b

Feedback: The statement of changes in equity explains the changes in equity and serves as a link between the balance sheet and the income statement.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

29. Which of these is *not* an alternative term for equity?

- a. Proprietorship
- b. Owners' equity
- *c. Bank account balance
- d. Capital

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

30. Which of the following statements is true?

- a. The profit of an entity is always represented by an increase in cash.
- b. A withdrawal of cash for private use by the owner is shown in the income statement as an expense.
- *c. Equity can be thought of as the owner's claim to the assets of the entity after deducting all liabilities.
- d. Profit can be calculated as net assets at the end of the year less net assets at the beginning of the year less drawings.

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

31. From the point of view of a business entity, a person or business to whom a debt is owed is known as a:

- a. debtor.
- *b. creditor.
- c. debitor.
- d. bank.

Correct answer: b

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

32. The income statement reports the financial:
- a. position of an entity at a specific period of time.
 - *b. performance of an entity over a specified period of time.
 - c. position of an entity over a specified period of time.
 - d. performance of an entity at a specific period of time.

Correct answer: b

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

33. The statement that measures an entity's financial position is the:
- a. income statement.
 - *b. balance sheet.
 - c. statement of cash flows.
 - d. statement of changes in equity.

Correct answer: b

Feedback: The balance sheet measures the financial position of an entity.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

34. Which of these does not fit the accounting definition of an asset?
- a. Accounts receivable
 - *b. Staff skill and experience
 - c. Goodwill
 - d. Cash at bank

Correct answer: b

Feedback: Staff skill and experience do not fit the accounting definition of an asset as they are not controlled by the firm and have not arisen as a result of a past transaction.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

35. Julio's opening capital at 1 July 2011 was \$50 000, his profit for the year was \$18 000 and his drawings were \$15 000. What is the final balance of his capital at the end of the year?
- a. \$68 000
 - b. \$50 000
 - c. \$83 000

*d. \$53 000

Correct answer: d

Feedback: The final capital balance is \$53 000 = (\$50 000 + \$18 000 – \$15 000).

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

36. In order to assess an entity's cash performance it is common to classify its activities into operating, investing and financing. For a medical practice, which of the following would be an operating activity?

- *a. Billing a patient for a consultation.
- b. Purchasing new equipment for the surgery.
- c. Repaying a portion of a loan.
- d. Selling an old computer.

Correct answer: a

Feedback: Billing a patient for a consultation is an operating activity as it is associated with the provision of goods and services.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

37. In order to assess an entity's cash performance it is common to classify its activities into operating, investing and financing. For the local cricket club which of the following would be a financing activity?

- a. Paying for lawn mowing.
- b. Renovating the clubhouse.
- c. Paying the annual subscription to the cricket association.
- *d. Borrowing \$40 000 from a bank.

Correct answer: d

Feedback: Borrowing \$40 000 from a bank is a financing activity as it is associated with providing funds to carry out the entities operating and investing activities.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

38. A balance sheet would normally balance at:

- *a. total assets.
- b. total liabilities.
- c. the bank balance.
- d. the owner's initial capital contribution.

Correct answer: a

Feedback: A balance sheet would normally be shown balancing at either total assets or net assets (assets less liabilities).

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

39. Which of these is not an alternative name for the income statement?

- a. Operating statement
- b. Profit and loss statement
- c. Profit report
- *d. Statement of financial position

Correct answer: d

Feedback: Statement of financial position is not an alternative name for the income statement; it is an alternative name for the balance sheet.

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

40. On 31 July 2014 Comfy Heaters sells goods to Barker who agrees to pay for them within 45 days. On the balance sheet of Comfy Heaters at 31 July 2014 the amount owing by Barker would be reported as the asset:

- a. cash at bank.
- b. accounts payable.
- *c. accounts receivable.
- d. creditor.

Correct answer: c

Learning objective 2.3 ~ outline the basic financial statements used in business to report to users for decision-making purposes.

41. Which assumption is the basis upon which the personal assets of the owner are excluded from the business's balance sheet?

- a. Going concern
- b. Accrual basis
- c. Materiality
- *d. Accounting entity

Correct answer: d

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

42. The assumption which requires transactions to be recognised in the accounting reports when they occur and not when the cash is received or paid is:

- *a. accrual basis.
- b. accounting entity.

- c. faithful representation.
- d. accounting period.

Correct answer: a

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

43. The assumption which assumes that the entity will not be liquidated in the near future is the:
- a. accounting entity.
 - b. reliability.
 - c. accrual basis.
 - *d. going concern.

Correct answer: d

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

44. In order to prepare financial information for interested parties Hobart Company divides the economic activity of the firm into three-month segments and prepares financial statements at the end of each segment. Which accounting assumption is Chambers applying?
- *a. Accounting period
 - b. Materiality
 - c. Accounting entity
 - d. Going concern

Correct answer: a

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

45. The concept which permits information to be grouped together with other information as long as this does not mislead statement users in their decision making is called:
- a. grouping.
 - *b. materiality.
 - c. clustering.
 - d. accrual basis.

Correct answer: b

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

46. Accountants divide the life of the business into arbitrary time periods of equal length:

- a. in order to prepare a balance sheet.
- *b. in order to calculate comparable profit results.
- c. in order to prepare an income statement.
- d. because of the accounting entity assumption.

Correct answer: b

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

47. The system where every transaction affects at least two components of the accounting equation is known as:
- a. historical cost accounting.
 - b. the going concern system.
 - c. the accounting entity system.
 - *d. double-entry accounting.

Correct answer: d

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

48. The cost assumption by accountants means that assets are valued at:
- *a. acquisition cost.
 - b. market value.
 - c. resale value.
 - d. replacement cost.

Correct answer: a

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

49. Drop Zone Parachuting has decided to prepare its financial statements every three months. Which accounting assumption is it implementing?
- a. Cost assumption
 - b. Accounting entity
 - *c. Accounting period
 - d. Going concern assumption

Correct answer: c

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

50. Historical cost is widely used for asset valuation as it is regarded as providing more _____ information than estimated market value.
- a. subjective
 - b. relevant
 - *c. reliable
 - d. accounting entity

Correct answer: c

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

51. The accounting assumption that the business will continue indefinitely into the future is the _____ assumption.
- a. accounting period
 - b. faithful representation
 - c. understandability
 - *d. going concern

Correct answer: d

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

52. In comparison to historical costs, estimated market values are usually considered by accountants to be _____ for decision making.
- a. more reliable but less relevant
 - *b. less reliable but more relevant
 - c. more material but less comparable
 - d. more comparable but less material

Correct answer: b

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

53. The extent to which items in accounting reports can be combined or presented separately is covered by the concept of:
- a. comparability.
 - b. faithful representation.
 - c. economic substance.
 - *d. materiality.

Correct answer: d

Feedback: Materiality encompasses the extent to which information can be combined or presented separately without misleading users in economic decision making.

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

54. On 1 March Speedy Window Cleaning pays \$1200 in cash for the March rent of its business premises. Which of the following is the effect on the accounting equation?
- a. Decrease in cash at bank \$1200; decrease in liability accounts payable \$1200.
 - b. Decrease in cash at bank \$1200; increase in liability accounts payable \$1200.
 - *c. Decrease in cash at bank \$1200; decrease in equity \$1200.
 - d. Decrease in cash at bank \$1200; increase in equity \$1200.

Correct answer: c

Feedback: The effect on the accounting equation is a decrease in cash at bank of \$1200 and a decrease in equity of \$1200 (because an expense has been incurred).

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

55. Which of these is the most important consideration in ensuring that information is relevant for decision making?
- a. A high degree of accuracy
 - b. Historical record
 - c. Monetary assumption
 - *d. Timeliness

Correct answer: d

Feedback: Timeliness is the most important of the considerations listed in ensuring that information is relevant for consideration. Users may be satisfied with less than perfect information if it is provided in a timely manner.

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

56. The accounting assumption that gives rise to the equity element in the accounting equation is:
- a. the accrual basis assumption.
 - b. the economic substance assumption.
 - *c. the entity assumption.
 - d. the materiality assumption.

Correct answer: c

Feedback: The entity assumption gives rise to the equity element in the accounting equation as it assumes that the organisation is separate from its owner and therefore owes funds back to its owner.

Learning objective 2.4 ~ explain the main assumptions made and the characteristics of information to be used in the preparation of financial statements.

57. Which of these effects of a single transaction on the accounting equation is *not* possible?
- a. Increase in assets at the same time as an equal increase in equity.
 - b. Decrease in assets at the same time as an equal decrease in liabilities.
 - c. Increase in liabilities at the same time as an equal decrease in liabilities.
 - *d. Decrease in liabilities and at the same time an equal decrease in equity.

Correct answer: d

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

58. Liz, after qualifying at university and having several years' experience decides to set up her own dental practice. On 1 March she deposits \$25 000 into a bank account she has opened for the practice. Which of the following represents the effect of this transaction on the accounting equation?
- *a. Increase in assets of \$25 000; increase in equity of \$25 000.
 - b. Increase in assets of \$25 000; decrease in equity of \$25 000.
 - c. Increase in assets of \$25 000; increase in liabilities of \$25 000.
 - d. Decrease in assets of \$25 000; increase in equity of \$25 000.

Correct answer: a

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

59. Jane is an accountant operating as a sole proprietor. On 1 February she does some work for a client who pays her \$320 in cash. Which of the following represents the effect of this transaction on the accounting equation?
- a. Increase in cash at bank \$320; decrease in liability accounts payable \$320.
 - *b. Increase in cash at bank \$320; increase in equity \$320.
 - c. Increase in cash at bank \$320; increase in asset accounts receivable \$320.
 - d. Increase in cash at bank \$320; increase in liability accounts payable \$320.

Correct answer: b

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

60. Jane is an accountant operating as a sole proprietor. On 1 February she does some work for a client on credit who she invoices for \$120. Which of the following represents the effect of this transaction on the accounting equation?
- a. Increase in cash at bank \$120; decrease in liability accounts payable \$120.
 - b. Increase in equity \$120; increase in liability accounts payable \$120.
 - *c. Increase in asset accounts receivable \$120; increase in equity \$120.

- d. Increase in cash at bank \$120; increase in equity \$120.

Correct answer: c

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

61. Jane is an accountant operating as a sole proprietor. On 1 February she does some work for a client on credit who she invoices for \$120. On 10th of February the client pays his account and Jane banks the \$120. Which of the following represents the effect of the receipt of cash transaction on the accounting equation for Jane's practice?
- a. Increase in cash at bank \$120; increase in equity \$120.
 - *b. Increase in cash at bank \$120; decrease in asset accounts receivable \$120.
 - c. Increase in cash at bank \$120; increase in asset accounts receivable \$120.
 - d. Increase in cash at bank \$120; decrease in equity \$120.

Correct answer: b

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

62. Laura J set up a part-time business 'Speedy Window Cleaning' by depositing \$6000 into a business bank account. Which of the following represents the effect of this transaction on the accounting equation?
- *a. Increase in assets of \$6000; increase in equity of \$6000.
 - b. Increase in assets of \$6000; decrease in equity of \$6000.
 - c. Increase in assets of \$6000; increase in liabilities of \$6000.
 - d. Decrease in assets of \$6000; increase in equity of \$6000.

Correct answer: a

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

63. Speedy Window Cleaning received \$600 for window cleaning services provided. Which of the following represents the effect on the accounting equation?
- *a. Increase in assets of \$600; increase in equity of \$600.
 - b. Increase in assets of \$600; decrease in assets of \$600.
 - c. Increase in assets of \$600; increase in liabilities of \$600.
 - d. Decrease in assets of \$600; decrease in equity of \$600.

Correct answer: a

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

64. Speedy Window Cleaning purchased 12 months worth of cleaning supplies on credit from Southern Cleaning Supplies for \$1500. Which of the following represents the effect on the accounting equation?
- a. Increase in assets of \$1500; increase in equity of \$1500.
 - b. Increase in assets of \$1500; decrease in assets of \$1500.
 - *c. Increase in assets of \$1500; increase in liabilities of \$1500.
 - d. Decrease in assets of \$1500; decrease in equity of \$1500.

Correct answer: c

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

65. Speedy Window Cleaning paid Southern Cleaning Supplies \$1500 which was owed for cleaning supplies previously purchased. Which of the following represents the effect on the accounting equation?
- a. Decrease in assets of \$1500; decrease in equity of \$1500.
 - b. Increase in assets of \$1500; decrease in assets of \$1500.
 - c. Increase in assets of \$1500; increase in liabilities of \$1500.
 - *d. Decrease in liabilities of \$1500; decrease in assets of \$1500.

Correct answer: d

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

66. Jane is an accountant operating as a sole proprietor. In January she purchases for \$540 some new furniture for her office. The purchase is made on credit. Which of the following represents the effect of this transaction on the accounting equation?
- *a. Increase in the asset furniture \$540; increase in the liability accounts payable \$540.
 - b. Increase in the asset furniture \$540; decrease in the asset accounts receivable \$540.
 - c. Increase in the asset furniture \$540; increase in equity \$540.
 - d. Increase in the asset furniture \$540; increase in the asset accounts receivable \$540.

Correct answer: a

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.

67. Jane is an accountant operating as a sole proprietor. On 14 February she pays \$600 wages in cash to her receptionist for work done during the first half of the month. Which of the following represents the effect of this transaction on the accounting equation?
- a. Decrease in cash at bank \$600; decrease in liability accounts payable \$600.
 - b. Decrease in cash at bank \$600; increase in liability accounts payable \$600.
 - c. Decrease in cash at bank \$600; increase in equity \$600.
 - *d. Decrease in cash at bank \$600; decrease in equity \$600.

Correct answer: d

Learning objective 2.5 ~ analyse the effects of business transactions on the accounting equation and on financial statements.